

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Cardoza Analyst: Marion Mann DeJong Bill Number: AB 94

Related Bills: \_\_\_\_\_ Telephone: (916) 845-6979 Amended Date: 06/23/98

Attorney: Doug Bramhall

Sponsor: \_\_\_\_\_

**SUBJECT:** Gun Safe Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED \_\_\_\_\_ STILL APPLIES.

☒ OTHER - See comments below.

### SUMMARY OF BILL

This bill would create a tax credit for individual taxpayers equal to \$150 each for up to two gun safes purchased by the taxpayer during the taxable year.

### SUMMARY OF AMENDMENT

The June 23, 1998, amendments made the following changes.

- Changed the operative date.
- Limited the credit to the purchase of two gun safes.
- Added requirements that a California resident use the gun safes for personal, noncommercial purposes and that the safes are purchased from registered dealers.
- Modified the definition of "gun safe."
- Added a requirement that the Franchise Tax Board report annually to the Legislature regarding the number of taxpayers claiming the gun safe credit.

The current law discussion in Specific Findings of the department's analysis of the bill as amended June 11, 1998, still applies. The remainder of that analysis is replaced with the following.

### EFFECTIVE DATE

As a tax levy, this bill would become effective immediately. However, the bill specifies that it would apply to taxable years beginning on or after January 1, 1999, and before January 1, 2003.

### Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department/Legislative Director

Date

Johnnie Lou Rosas

7/9/98

### SPECIFIC FINDINGS

**This bill** would create a Personal Income Tax Law (PITL) credit equal to \$150 each for up to two gun safes purchased by a California resident during the taxable year for personal, noncommercial use. "Gun safe" would mean a safe specifically manufactured to store firearms constructed of steel or a material of equal or greater strength that has a combination or key lock listed by the Underwriters' Laboratories Incorporated. The credit would be allowed only if the gun safe is purchased new from a registered dealer in possession of a federal firearms license. Any credit in excess of "net tax" could be carried forward indefinitely. Since this bill does not specify otherwise, this credit would not reduce regular tax below tentative minimum tax.

**This bill** also would require the Franchise Tax Board to report annually to the Legislature regarding the number of taxpayers claiming the gun safe credit.

### Constitutional Consideration

This bill would restrict the gun safe credit to California residents. This may be unconstitutional since it would discriminate against nonresidents with California filing requirements who would not be able to claim the credit. For example, a nonresident taxpayer could not claim a credit for the purchase of a gun safe for personal use in a vacation home located in California.

### Policy Considerations

This bill would raise the following policy considerations.

- Most credits relating to the purchase of property require the taxpayer to recapture the credit if the property is subsequently disposed of or removed from the state. This bill does not have a recapture provision. However, credits with recapture provisions are usually much larger than \$150.
- This bill would provide a credit for the purchase of a gun safe regardless of whether the safe was used to store firearms (the safe could be used to store valuable items such as jewelry).
- This bill would provide a credit for the purchase of a gun safe to be used by a California resident outside of California (e.g., used in a vacation home in Nevada).
- This bill would require the taxpayer to purchase the gun safe from a registered dealer in possession of a federal firearms license (i.e., a gunsmith). Retailers that sell only safes would not possess such a license. However, the author has indicated that this requirement will be removed from the bill.

### Implementation Considerations

This bill would raise the following considerations.

- The bill would require the combination or key lock on the gun safe to be listed by the Underwriters' Laboratories Incorporated. In addition, the bill would require the taxpayer to purchase the gun safe from a registered dealer in possession of a federal firearms license. Taxpayers may not know whether the safe they purchased meets these qualifications and auditors may have difficulty verifying the safe met these qualifications.
- This bill would provide an unlimited carryover of excess credit amounts. Since tax credits are usually used within eight years, most recently enacted credits contain limited carryover provisions, usually eight or ten years.

### FISCAL IMPACT

#### Departmental Costs

This bill would not significantly impact the department's costs.

#### Tax Revenue Estimate

The estimated revenue losses in the prior analysis were shifted out one year because the June 23, 1998, amendments changed the operative date to January 1, 1999. The revenue loss decreased because the amendment requiring the lock to be listed by the Underwriters' Laboratories Incorporated eliminated gun cabinets and boxes from the definition of "gun safe." The amendments to limit the taxpayer to credit for the purchase of two gun safes had negligible impact on the prior revenue estimate since the prior estimate assumed that most taxpayers would only purchase one gun safe.

Based on data and assumptions discussed below, this bill would result in revenue losses under the PITL as shown in the table.

Estimated Revenue Impact of AB 94 As Amended 6/23/98 [\$ In Millions]			
1998-99	1999-00	2000-01	2001-02
(negligible)	(\$2)	(\$2)	(\$2)

Negligible is a loss less than \$100,000.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

#### Tax Revenue Discussion

The revenue impact of this bill would be determined by the number of gun safes, as defined and limited by this amendment, that are purchased by taxpayers, the credit amount (specified as \$150 for each safe purchased), and the amount of credits that could be applied to reduce tax liabilities.

As defined, "gun safe" is assumed to include only gun safes and not lighter gauge metal gun cabinets or boxes. Retail dealers have indicated that a gun safe can cost from \$600 up to a few thousand dollars.

This estimate includes safes purchased from dealers without a federal firearms license since the author has indicated that the requirement that gun safes be purchased from a registered dealer in possession of such a license will be removed from the bill. If the author does not amend the bill as indicated, the estimated revenue losses will decrease.

Sales data for 1997 were obtained from industry contacts. Data were grown by industry provided growth rates plus an estimated incentive effect based on the relative cost of a safe versus the proposed credit. California's share of national sales was estimated to be 12%. The number of projected units sold each year was multiplied by the credit of \$150. It is assumed any credits generated during a taxable year would be applied.

#### BOARD POSITION

Pending.